



Kansas Health Policy Authority Board Meeting

November 18, 2008

Steve Schramm
Sean Maynard

Objectives for Today

Today's Discussion:

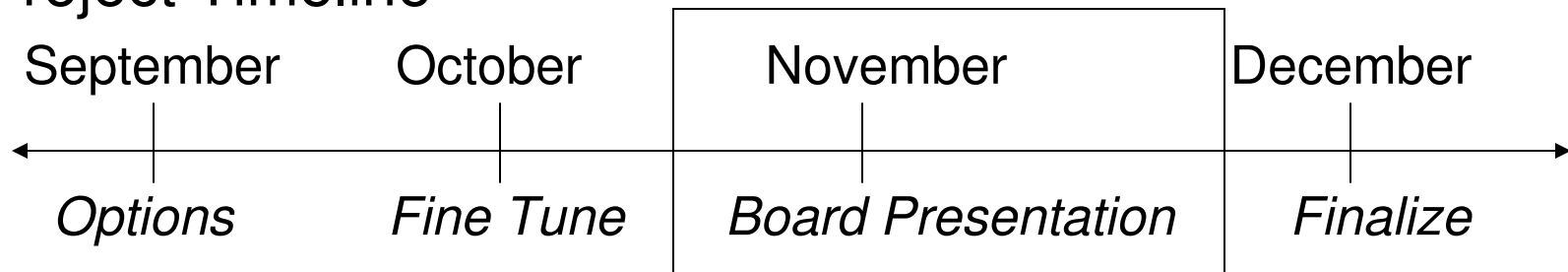
- Review Purpose of Meeting and Timeline
- Background on Health Insurance Markets
- Describe Reform Proposals
- Present Results of Reforms Modeled
- Next Steps

Purpose and Timeline

Purpose

- Goal(s) = Input on Final Recommendations to Board
- Deliverable(s)

Project Timeline



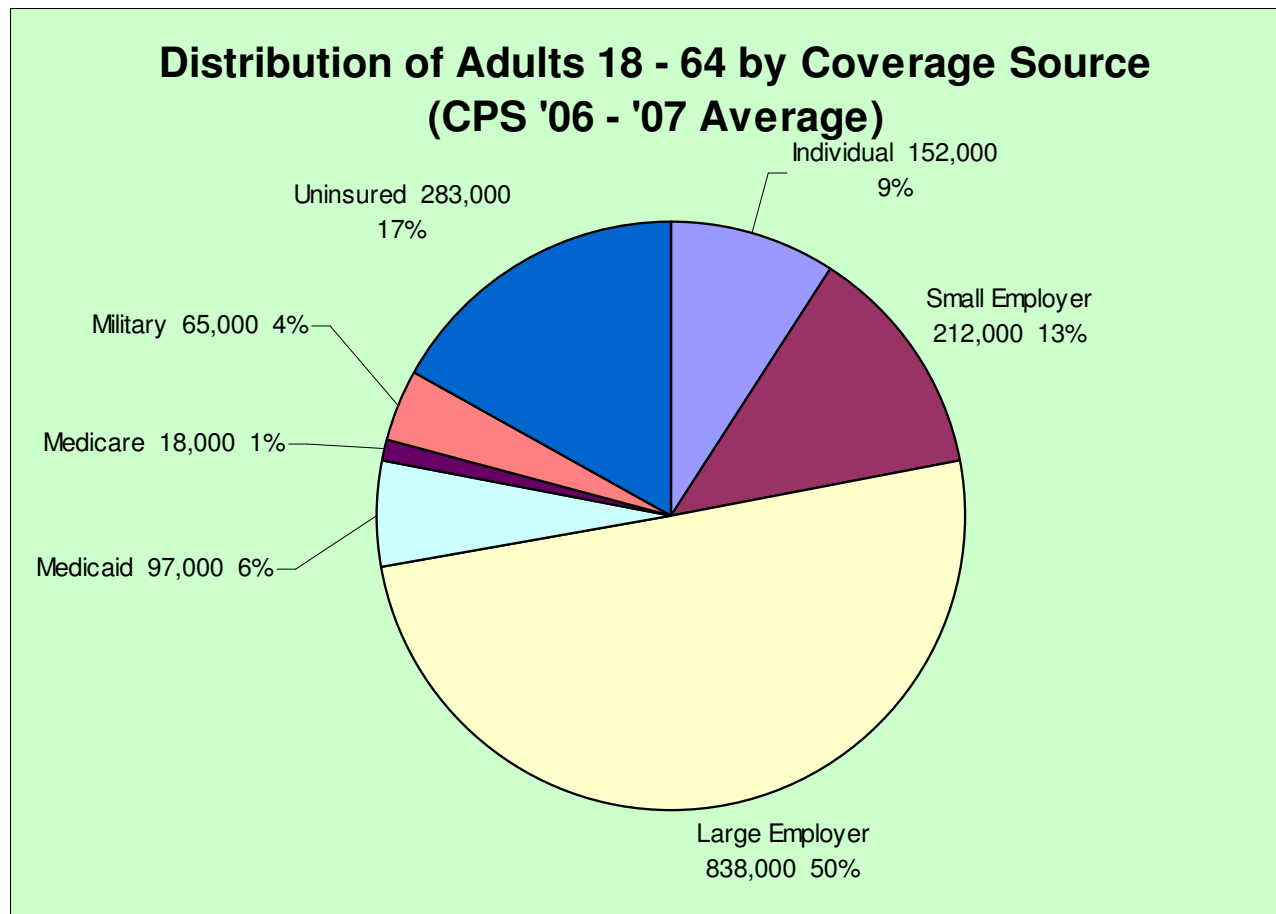
Background on Health Insurance

Concept of Health Insurance

1. Spreading Risk
 - Combining Users and Non-Users
2. Managing Risk
 - Traditional Fee-for-Service Model (Indemnity)
 - Managed Care (PPO/HMO)
 - Approaches to Management
 - Cost Management
 - Care Management
3. Regulating Risk
 - Kansas Insurance Department
 - Federal Oversight
 - ERISA, HIPAA, COBRA

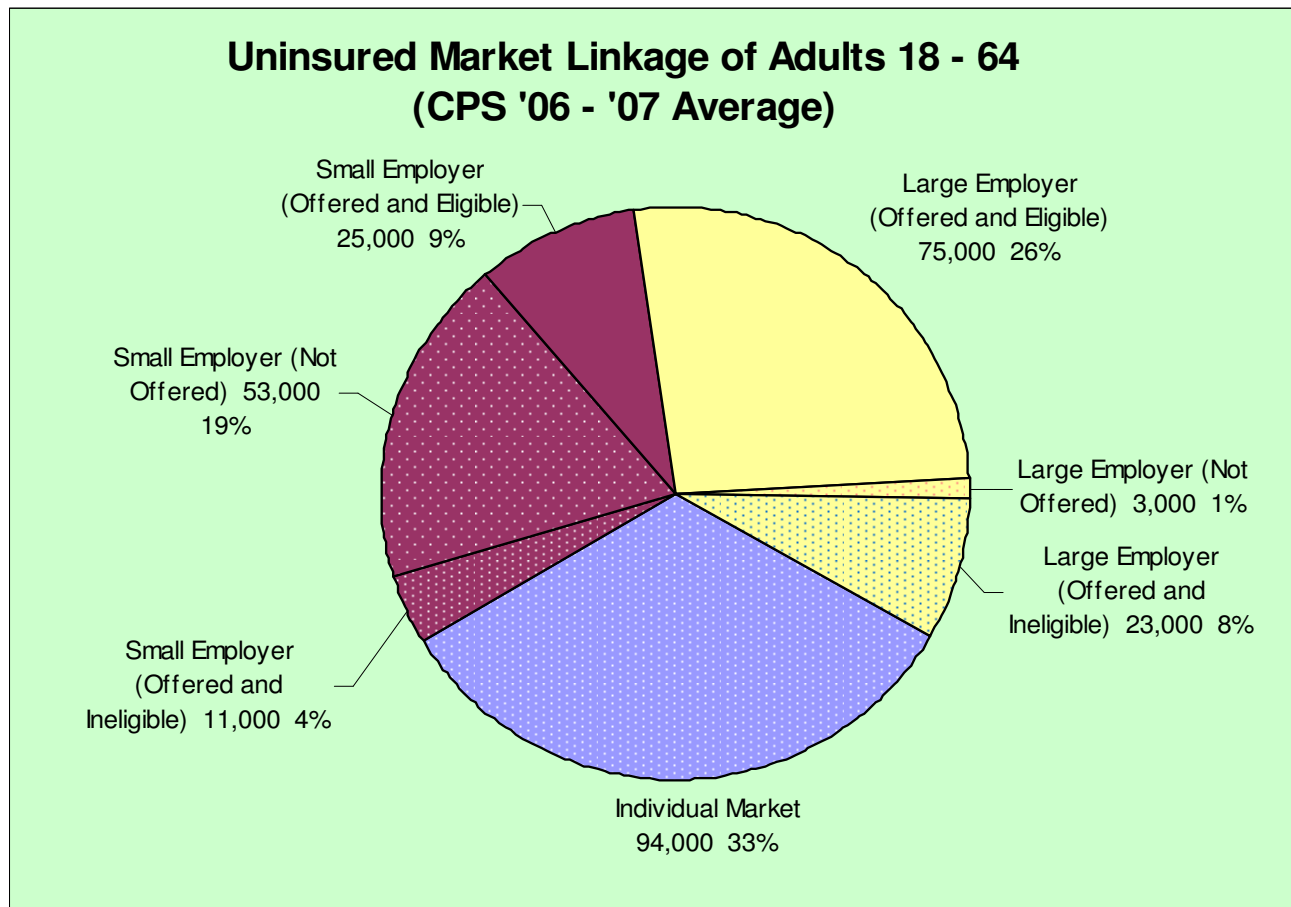
Background on Health Insurance

Kansas' Health Insurance Marketplace (All Adults)



Background on Health Insurance

Kansas' Health Insurance Marketplace (Uninsured Adults)



Background on Health Insurance

Kansas' Health Insurance Marketplace (Adults)

1. Individual Insurance Market
 - Individuals and Sole Proprietors = 152,000 total lives
2. Small Employer Market
 - 2-50 Employees = 212,000 total lives
3. Large Employer Market
 - > 50 Employees = 838,000 total lives
4. Publicly Sponsored Market
 - Medicaid/HealthWave/KHIA

Background on Individual Health Insurance Marketplace

Kansas' Individual Marketplace:

1. Insurance Regulations
 - Rate Caps = No
 - Medical Underwriting = Allowed
 - Pre-Existing = 12-mth look-back/24-mth exclusionary
 - Community Rating = No
 - Elimination Riders = Permitted
2. Market Description
 - Uninsured Linked to Individual Market = 94,000

Background on Small Employer Health Insurance Marketplace

Kansas' Small Employer Marketplace:

1. Insurance Regulations

- Rate Banding = +/- 25%
- Medical Underwriting = Allowed
- Pre-Existing = 6-mth look-back/3-mth exclusionary
- Community Rating = No
- Guaranteed Issue = Yes
- Guaranteed Renewable = Yes

2. Market Description

- Small Employer Offer Rate = 60%
- Employees of Small Employers Uninsured = 85,000

Background on Large Employer Health Insurance Marketplace

Kansas' Large Employer Marketplace:

1. Insurance Regulations

- Group Underwriting = Allowed by age, gender, industry, geography
- Community Rating = No
- Guaranteed Issue = No
- Guaranteed Renewable = Yes

2. Market Description

- Large Employer Offer Rate = 96%
- Employees of Large Employers Uninsured = 100,000

Background on Publicly Sponsored Health Insurance Marketplace

Kansas' Publicly Sponsored Marketplace:

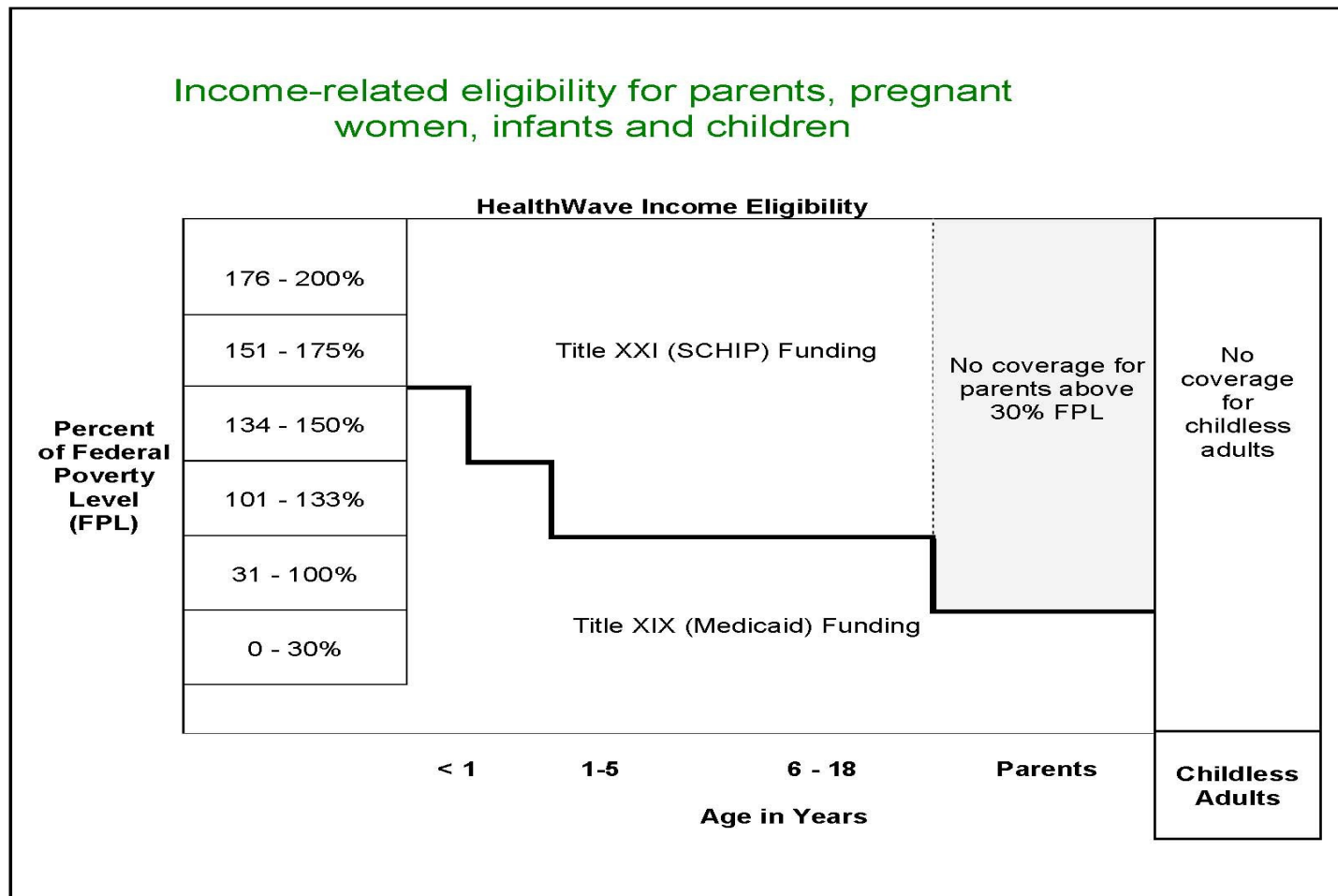
1. Insurance Regulations

- Medical Underwriting = Not Allowed
- Community Rating = N/A
- Guaranteed Issue = Yes
- Guaranteed Renewable = Yes

2. Market Description

- Medicaid Eligibility Varies by Age and Income (see slide 12)
- Managed Care Enrollment = 160,000
- Fee-for-Service Enrollment = 140,000

Background on Publicly Sponsored Health Insurance Marketplace (Cont.)



Background on Uninsured Marketplace

Kansas' Strategies for Uninsured:

Past

1. Medicaid Expansions
2. Business Health Partnership

Continuing/Current

1. KHIA
2. Tax Credit

Opportunities for Reform

Small Employer Reforms Typically Target 4 Major Areas:

1. **Regulation** – Review Small Group Insurance Market Laws and/or Structure
 - Laws - Rating Bands, Community Rating
 - Administration – Connector/Exchange
2. **Affordability** – Improve thru Targeted Intervention
 - Stability – Reinsurance, Hi-Risk Pools
 - Funding – Tax Credits, Subsidized Reinsurance
3. **Plan Design** – Develop Targeted Products
 - Benefits – Change Benefits Structure (Mini-Med/HSA)
 - Populations – Young Adult Populations/Plans (YAPs)
4. **Education/Outreach**
 - *TBD*

Proposed Reforms Modeled

Small Employer Reforms Modeled included:

- Section 125 – Mandate Section 125 Plans for all Small Employers
- Business Health Partnership (BHP) – Expand roles and responsibilities of BHP in leading Small Employer Reforms
- Reinsurance – Estimate cost of Subsidized Reinsurance to reduce cost and volatility of Small Employer Health Insurance Market
- Mini-Med – Estimate cost and enrollment due to offering Mini-Med policies
- Young Adults – Allow all Dependent Young Adults from 19-25 remain on Parent's Insurance Coverage

Reforms Modeled – Regulation Mandate Section 125 Plans

Small Employers Required to Offer Section 125 Plans to Employees

Description:

- Mandate, at a minimum, “Premium-Only Plans” that allow employees to contribute or pay for health care coverage on a pre-tax basis
- “Premium-Only Plans” allow employees, using pre-tax dollars, to lower their taxable income and tax liability while paying for their health care premiums
- Employers can receive benefits from lowered tax liability as well, but employers are not required to contribute under a Section 125 plan

Change Required:

- Statutory Authority for Section 125 Mandate

Reforms Modeled - Regulation Business Health Partnership (BHP)

BHP - potential vehicle for the Small Employer Reform being discussed today, but not without certain changes to either BHP or Reform Policy:

No Change Required:

- BHP is authorized to collect dollars/payments from multiple sources (e.g., multiple employers, the State, grant dollars, employee contributions, parents/spouse, etc.) to pay for the premium of a limited benefit/mini-med policy for the small employer marketplace
- Mini-Med policies could be offered, but products offered by the BHP must include preventative and health screening services even though they are not subject to all of the health insurance mandates in KS

Changes Required:

- BHP statute has a 2-year go-bare provision vs. proposed 6-month in Reforms
- Based on KS small group law, BHP has a 30 hr per week qualification vs. proposed 20 hr per week in Reforms
- Education of Consumers about the limitations of Mini-Med policies

Reforms Modeled - Regulation

BHP - Potential Roles

Potential Additional Roles for BHP:

Product Design:

- Develop Products for Small Employer Market, including Mini-Med
- Develop, Market, and Evaluate RFP for Carriers to Provide Pricing on BHP Products
- Develop Service Specification for Section 125 Vendors
- Develop, Market, and Evaluate RFP for Section 125 Services

Administration:

- Resource for Small Employers for Purchase of Health Insurance
- Provide Seal of Approval to Approved Products and Carriers
- Assist Employers to Aggregate Funding Sources from Multiple Sources
- Oversight of Mandated Section 125 acting as Resource with Approved Section 125 vendors

Reforms Modeled – Affordability: Reinsurance

Full* Subsidization thru Reinsurance for Small Group:

Option	State Subsidization Level	New Enrollees	Annual Cost
Option 1a	<u>90%</u> of claims between \$25 – \$100k	17,000	\$89,131,000
Option 2a	<u>90%</u> of claims between \$10 – \$100k	27,000	\$140,402,000
Option 3a	<u>100%</u> of claims over \$150k	6,000	\$29,937,000
Option 4a	<u>100%</u> of claims over \$200k	4,000	\$21,070,000

*'Full' at lower claims amounts = 90% to retain some portion of claims management responsibility

Partial Subsidization thru Reinsurance for Small Group:

Option	State Subsidization Level	New Enrollees	Annual Cost
Option 1a	<u>50%</u> of claims between \$25 – \$100k	9,000	\$49,517,000
Option 2a	<u>50%</u> of claims between \$10 – \$100k	15,000	\$78,001,000
Option 3a	<u>50%</u> of claims over \$150k	3,000	\$14,968,000
Option 4a	<u>50%</u> of claims over \$200k	2,000	\$10,535,000

Reforms Modeled – Plan Design: Mini-Med

Small Employer Mini-Med Benefits Modeled:

Benefit	Limit (for a 12 month period)	Cost Share
Doctor Visits	12 visits	
• PCP		\$15 Co-pay
• Specialist		\$25 Co-pay
Prescription Drugs	Generic Only \$2,000 maximum	\$10 Co-pay
Inpatient	\$15,000 maximum	\$100 Co-pay
Emergency Room	2 visits	\$50 Co-pay
Outpatient Surgery	1 visit	\$25 Co-pay
Outpatient Other (Includes Lab/Radiology and PT/ST/OT services)	4 services	\$25 Co-pay
DME	\$1,000 Limit	\$0 Co-pay
Maximum Annual Benefit	\$25,000	

Case Study: CoverTN Mini-Med

CoverTN Small Employer Mini-Med Benefits Implemented 2007:

<i>Tennessee's Experience</i>	
<ul style="list-style-type: none"> • <i>Program started March 2007</i> • <i>Program part of a strategy to develop a culture of insurance</i> • <i>Enrollment more than 15,000</i> • <i>State Subsidizes 1/3rd of the Cost</i> • <i>Rates vary by Age, Income, Smoking</i> • <i>Average Rate = \$158.26*</i> <ul style="list-style-type: none"> – \$52.75 Employee – \$52.75 Employer – \$52.75 State <p><small>* 2007 Average Premium</small></p>	<ul style="list-style-type: none"> • <i>BC/BS TN was able to add benefits for NO additional cost for 2009</i> • <i>Program has brought new people to the health care market</i> • <i><u>"Some Coverage"</u> is seen by members/providers as better than <u>"No Coverage"</u></i> • <i>Program effectively leverages multiple funding sources – EE/ER/State</i>

Reforms Modeled – Plan Design: Mini-Med

Structure of Mini-Med Subsidization and Estimated Costs:

FPL Ranges		New Enrollment	Enrollee Share (PMPM)	Employer (PMPM)	State Share (PMPM)	Annual Cost to the State
0%	50%	500	\$5	\$56	\$107	\$592,000
50%	100%	700	\$10	\$56	\$102	\$865,000
100%	150%	1,300	\$15	\$56	\$97	\$1,473,000
150%	200%	1,500	\$25	\$56	\$87	\$1,566,000
200%	250%	1,500	\$35	\$56	\$77	\$1,355,000
250%	300%	1,600	\$45	\$56	\$67	\$1,252,000
300% and Above		4,000	\$84	\$84	\$0	\$0
Totals		11,000				\$7,103,000

*Red Bolded Numbers in Employee Share Reflect State Subsidy

**Bolded Numbers in State Share Column Reflect 1/3 Share and Subsidy

Reforms Modeled – Plan Design: Mini-Med

Cost and Enrollment of Mini-Med Program:

		Distribution of Cost by Funding Source		
New Enrollment Due to Mini-Med	~11,000	State Share	Employer Share	Employee Share
Total Cost	\$21,993,000	\$7,103,000	\$8,625,000	\$6,265,000
New Monthly Mini-Med Premium	~\$167	~\$54	~\$65	~\$48

Reforms Modeled – Plan Design: Mini-Med plus Targeted Reinsurance

Cost and Enrollment of Mini-Med plus Targeted Reinsurance
Program (\$30k stop-loss for Less than 150% FPL):

		Distribution of Cost by Funding Source		
New Enrollment Due to Mini-Med	~11,000	State Share	Employer Share	Employee Share
Mini-Med Cost	\$21,993,000	\$7,103,000	\$8,625,000	\$6,265,000
Low-Income RI	\$ 1,291,000	\$ 1,291,000	\$ -	\$ -
Total Cost	\$ 23,284,000	\$ 8,394,000	\$8,625,000	\$6,265,000

Reforms Modeled – Plan Design: Mini-Med plus Complete Reinsurance

Cost and Enrollment of Mini-Med plus Complete Reinsurance Program (See Below):

FPL Ranges		Attachment Point
0%	100%	\$ 30,000
100%	200%	\$ 35,000
200%	300%	\$ 40,000

Distribution of Cost by Funding Source				
New Enrollment Due to Mini-Med	~11,000	State Share	Employer Share	Employee Share
Mini-Med Cost	\$21,993,000	\$7,103,000	\$8,625,000	\$6,265,000
Complete RI	\$ 3,226,000	\$ 3,226,000	\$-	\$-
Total Cost	\$ 25,219,000	\$ 10,329,000	\$ 8,625,000	\$ 6,265,000

Reforms Modeled – Plan Design: Young Adults

Cost and Eligibles for Young Adults Remaining with Parents Coverage:

Range of Eligibles and Cost for Uninsured Young Adults 19-25 Estimated Additional Premium Costs to Overall Health Market				
	High Eligibles	Low Eligibles	High Cost	Low Cost
Adults 19-25 Remaining with Parents Coverage	28,000	21,000	\$ 72,240,000	\$ 54,000,000

*Assumes a standard benefit package

**Assumes the uninsured have the same average risk profile as the insured

***Assumes 100% take up (everyone eligible for coverage under these changes enrolls)

Next Steps

Outcome of Today's Meeting:

- Fine-Tune Models based on Board Feedback
- Prepare for Board Presentation of Recommendations to Legislature